

**STATEMENT
BEFORE THE
SENATE COMMITTEE ON THE BUDGET**

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Good Morning, Chairman Nussle, Congressman Spratt, and members of the Committee. I am honored to appear before you today to discuss the framework of the President's FY 2002 budget for the Department of Health and Human Services.

As I have noted on other occasions, I accepted the position of Secretary of this Department because I believe that there is no other job in America where you have a greater opportunity to help people – to actually make a difference in people's lives and improve the quality of life they lead. President Bush has outlined an ambitious agenda for the nation, and I take great pride in the fact that this Department will play a major role in carrying out his plans. I would be less than candid if I did not acknowledge the vast scope of the challenges that lie ahead of us, but I am confident that we will be able to work together in a bipartisan fashion to successfully meet them.

If we are to succeed in improving the lives of the people of this great nation, we must be willing to take another look at the way we do things on the national level. We must no longer be content to do things a certain way because "that's how we've always done it"; but must instead be willing to reform our business practices and seek innovative ways to manage our programs. And while we know that the federal government has an important role to play, we must also recognize that we must look to others – to State and local governments, to community faith-based organizations, to academic and religious institutions – for new and creative approaches to solving public problems. The President and I share this view, and I am proud to say that it is reflected in the budget framework he has put forward.

The framework I present to you today keeps the promises the President has made and proposes new and innovative solutions for meeting the challenges that face the nation. It seeks to enhance the groundbreaking research being conducted at the National Institutes of Health; modernize Medicare and expand access to quality healthcare; increase support for America's families; and reform the way the Department's operations are managed. Our proposals also reflect the President's commitment to a balanced fiscal framework that puts discretionary spending on a more reasonable and sustainable growth path, protects Social Security and other priority programs, continues to pay down the national debt, and provides tax relief for all Americans.

Mr. Chairman, the total HHS request for FY 2002 is \$ 471 billion (budget authority) and \$468 billion (budget outlays). The discretionary component totals \$ 55.5 billion (budget authority). Let me now highlight some of our major proposals.

ENHANCING RESEARCH AT THE NATIONAL INSTITUTES OF HEALTH

The National Institutes of Health (NIH) is the largest and most distinguished biomedical research organization in the world. The research that is conducted and supported by the NIH, from the most basic research on biological systems to the effort to map the human genome, offers the promise of breakthroughs in preventing and treating any number of diseases. A top priority for this Department is ensuring that the NIH continues to have the resources necessary to help turn these promises into a reality.

To this end, the framework I present to you today includes a Presidential Initiative to double NIH's FY 1998 funding level by FY 2003. For FY 2002, we are proposing an increase of +\$2.75 billion, which will be the largest increase ever for NIH. This funding level will enable NIH to support the highest level of total research grants in the agency's history.

With any large increase in resources, there also comes the increased challenge of making sure that those resources are managed properly. I take this responsibility very seriously, and NIH will be working to develop strategies to ensure that we are managing taxpayer dollars in the most efficient and effective way.

MODERNIZING MEDICARE AND EXPANDING ACCESS TO QUALITY HEALTHCARE

Of all the issues confronting this Department, nothing has a more direct effect on the well-being of our citizens than the quality of health care. Our budget framework proposes to improve the health of the American people by beginning the process of modernizing Medicare, including the addition of a prescription drug benefit; and by expanding access to quality health care.

Immediate Helping Hand

For thirty-five years the Medicare program has been at the center of our society's commitment to ensuring that all of our seniors enjoy a healthy and secure retirement. But the Medicare program is more than just a social contract between the government and the elderly, it is a commitment that our society has made to our seniors, as well as to the disabled. Honoring this commitment means not only making sure that the program is financially prepared for the wave of new beneficiaries that the aging of the baby-boom generation will bring, but ensuring that current beneficiaries have access to the highest quality care.

When Medicare was created in 1965, prescription drugs were not the integral part of health care that they are today and coverage for them was not included as part of the Medicare benefit package. But what was acceptable thirty-five years ago is simply unacceptable today. As a first step toward remedying this situation, the President has put forward an Immediate Helping Hand (IHH) prescription drug proposal.

This proposal gives immediate financial support to States so that they can provide prescription drug coverage to beneficiaries with limited incomes or high drug expenses.

The IHH proposal would complement and build on plans that are currently available in almost half the states, and under consideration in most others. The IHH would be fully funded by the Federal government and would provide States with the flexibility to choose how to establish coverage or enhance existing plans. Individuals with incomes up to \$11,600 and married couples with incomes up to \$15,700 who are not eligible for Medicaid or a comprehensive private retiree benefit would pay no premium and no more than a nominal charge for prescriptions. Individuals with incomes up to \$15,000 and married couples with incomes of up to \$20,300 would receive subsidies for at least half the cost of the premium for high-quality drug coverage. The IHH plan also includes a catastrophic component that would cover any Medicare beneficiaries with very high out-of-pocket drug costs. The President's proposal would provide immediate coverage for up to 9.5 million beneficiaries while we work to enact broader Medicare reform.

The Immediate Helping Hand is a temporary plan to help our Nation's seniors who are most in need of assistance with their prescription drug costs. The benefit will sunset in four years or as soon as a comprehensive Medicare reform and prescription drug benefit is implemented. However, this plan is critical because it provides assistance to millions of Americans this year. The President is committed to providing a prescription drug benefit to all Medicare beneficiaries and wants to work with Congress in a bipartisan fashion to see this happen.

The President believes comprehensive Medicare reform needs to be enacted at the same time as a prescription drug benefit. As I have already mentioned, the Medicare program has not kept pace with modern medicine. Today, Medicare covers only 53 percent of the average senior's annual medical expenses and the program's benefits package is lacking. In addition, Medicare is facing a looming fiscal crisis. A full assessment of the health of both the Part A and Part B Trust Funds reveals that spending exceeds the total of tax receipts and premiums dedicated to Medicare and that gap is expected to widen dramatically. Even without the financing problem, Medicare modernization would be necessary to ensure beneficiaries get high quality health care. President Bush wants to devote \$153 billion over the next ten years on urgently needed Medicare modernizations that will help improve the financial health of the program and the addition of a prescription drug benefit for all Medicare beneficiaries.

Expanding Community Health Centers

While modernizing Medicare is the cornerstone of our healthcare agenda, we are also proposing steps to strengthen the health care safety net for those most in need. Community Health Centers provide high quality, community based care to approximately 11 million patients, 4.4 million of whom are uninsured, through a network of over 3,000 centers in rural and urban areas. The President has proposed to increase the number of health center sites by +1,200 by FY 2006. As a first installment of this multi-year initiative, we propose to increase funding for Community Health Centers by +\$124 million. We will also be looking at ways to reform the National Health Service Corps so as to better target placement of providers in areas experiencing the greatest shortages.

Increasing Access to Drug Treatment

The problems caused by substance abuse affect not only the physical and mental condition of the individual, but the well-being of society as a whole. Nationwide, approximately 2.9 million people with serious substance abuse problems are not receiving the treatment they desperately need. To help close this treatment gap, we propose to increase funding for substance abuse treatment by +\$100 million. These funds will be used to increase the Substance Abuse Block Grant, the primary vehicle for funding State substance abuse efforts, and to increase the number of Targeted Capacity Expansion grants, which seek to address the treatment gap by supporting strategic and rapid responses to emerging areas of need; including grants to organizations that provide residential treatment to teenagers.

INCREASING SUPPORT FOR AMERICA'S FAMILIES

William Bennett once said that “the family is the original Department of Health, Education, and Welfare”, and while the name of this Department may have changed, the truth of this statement has not. America’s families are its strength, and this Department is committed to doing everything in its power to help better the lives of America’s families and children. We are proposing a number of new initiatives to help improve the quality of life of our nations’ families; as well as to increase support for the charitable organizations that can make such a difference in people’s lives.

After School Certificates

One of the lessons I learned during my years as Governor of Wisconsin was that for people to move from dependency to success in the workforce, you had to be willing to invest in programs that support working families. One of the most important things that we as a government can do to help working families is to assist them in obtaining high-quality child care. Last year the Congress voted to provide a substantial increase in child care funding, and this year we are asking you to take another step to help working parents, and their children, be successful. The President has proposed to specifically dedicate \$400 million for After School Certificates within the Child Care and Development Block Grant. This would help low income working parents to pay for the costs of after school care for their children. We expect these after school activities to also have a strong educational component, helping children to achieve success in school.

Promoting Safe and Stable Families

Our budget framework takes a number of steps to help protect our most vulnerable and at-risk children and to help them live safe and productive lives. First, we propose a +\$200 million increase for the Promoting Safe and Stable Families program, which supports State and Tribal child welfare agencies in carrying out family preservation and support services. These additional funds will be used to help keep children with their biological families, or if it is not possible for them to safely remain with them, to place them with adoptive families. We will also provide an additional \$2 million to expand collaborative Federal/State child welfare monitoring efforts. Second, we propose to create a new \$67 million initiative

within the Promoting Safe and Stable Families program to assist children of prisoners. This initiative will provide grants through States to assist faith and community-based groups in providing a range of activities to mentor children of prisoners and probationers, including family-rebuilding programs, that serve low-income children of prisoners and probationers. Finally, we propose an additional +\$60 million for the Independent Living program. These funds would be used to provide vouchers, worth up to \$5,000, to youths who are aging out of foster care so that they can obtain the education and training they need to lead productive lives. Funds could be used to pay for either college tuition or vocational training.

Maternity Group Homes

One of the toughest problems we face in trying to end the cycle of dependency is children having children. These teenage mothers have often suffered abuse or neglect themselves and may not have a safe and supportive family environment in which to raise their babies. To begin removing the obstacles to success that these mothers and their children face, we are proposing \$33 million for a new Maternity Group Homes program. This program will support State efforts to work with organizations that operate community-based, adult-supervised group homes for teenage mothers and their children as well as to provide certificates to young mothers to obtain supportive services. These homes will provide a safe and nurturing environment for young mothers while offering the support necessary to help them and their children to improve their lives.

Promoting Responsible Fatherhood

Helping young mothers is an important part of our program to assist America's families, but it is also important that we recognize the critical role that fathers play in the lives of their families. Our budget framework includes \$64 million to begin an initiative to promote responsible fatherhood by providing competitive grants to faith-based and community-based organizations that work to strengthen the role that fathers play in their families' lives. These funds will be used to support programs that help low-income and unemployed fathers and their families to avoid dependence on welfare, and to fund programs that promote successful parenting and marriage. Of these funds, \$4 million will be used for special projects of national significance.

Compassion and Charitable Giving

The President has been a leader in recognizing the important role that charitable organizations play in delivering services to the public, and we are proposing a number of steps to increase federal support for these groups. First, we are requesting \$67 million to establish a Compassion Capital Fund. Through public and private partnerships, these resources will be used to provide start-up capital and operating funds to qualified charitable organizations so that they can expand or emulate model social services programs. To complement this Compassion Capital Fund, we also propose to create a \$22 million fund to support research on "best practices" among charitable organizations. Our budget framework also includes \$3 million to establish a Center for Faith-Based and Community Initiatives in the Department in accordance with the President's recent Executive Order. Finally, we have included a proposal to

encourage states to provide tax credits for contributions to designated charities that work to address poverty. Under this proposal, States would be allowed to use federal funds provided through the Temporary Assistance for Needy Families program to partially offset revenue losses that resulted from the tax credits.

REFORMING THE MANAGEMENT OF THE DEPARTMENT'S OPERATIONS

For any organization to succeed, it must be willing to change. We must never stop asking ourselves how can we be doing things better. But we must also recognize that we do a disservice to all that rely on this Department if we do not provide the resources necessary to effectively administer our programs. In preparing our budget framework, we began the process of evaluating the programs and business practices of this Department and identifying the areas where we can do a better job of managing taxpayer resources, as well as those areas where new investments are required if we are to successfully administer our operations.

Health Care Financing Administration Reform

One of the top priorities of this Administration is improving the management of the Health Care Financing Administration (HCFA). The demands on this organization have grown dramatically in the last few years, and we must make sure that they have the necessary resources to successfully administer the Medicare, Medicaid, and State Children's Health Insurance programs on which so many people depend. At the same time, we must recognize that patients, providers, and States have legitimate complaints about the scope and complexity of the regulations and paperwork that govern these programs. During my confirmation hearings, I said that HCFA needed to undergo a thorough examination of its missions, its competing demands, and its resources. We are currently in the process of undertaking just this kind of comprehensive review, and we will consider any and all options for improving the agency and making it a more responsive and effective organization.

Investing in Departmental Infrastructure

The only way that this Department can effectively serve its many clients is if we commit to making the necessary investments in our management and infrastructure. One of the challenges in a large, decentralized Department such as HHS is finding ways to bring together diverse activities and to develop coordinated systems for managing our programs. Our budget framework provides the resources necessary to continue modernizing our facilities, and proposes steps to begin the process of streamlining our financial management and information technology systems so that we can enhance coordination across the Department and eliminate unnecessary and duplicate systems.

It is critical that we invest in the modernization of the laboratories and office facilities in which many of our most important activities occur. With this goal in mind, we are requesting \$150 million to continue a major revitalization of labs and scientific facilities at the Centers for Disease Control and Prevention. We have

also included funding for the Food and Drug Administration to finish construction of the Los Angeles laboratory and to continue development of the new headquarters facility in White Oak, Maryland.

For financial management, we propose to invest an additional \$50 million to move toward a unified financial accounting system. The Office of Inspector General has cited major problems with the Department's current system structure, which involves five separate accounting systems operated by multiple agencies. We plan to replace these antiquated systems with one or two unified financial management systems that will increase standardization, reduce security risks, allow HHS to produce timely and reliable financial information needed for management decision-making, and provide accountability to our external customers.

In the information technology arena, we are proposing \$ 30 million for a new Information Technology Security and Innovation fund. Currently, the Department's information technology systems are highly decentralized, heterogeneous, and vulnerable to exploitation. Funds would be used to implement an Enterprise Infrastructure Management approach across the Department that would minimize our vulnerabilities and maximize our cost savings and ability to share information. With this approach, we will be able to reduce duplication of equipment and services and be better able to secure our systems against viruses and network intrusion.

As the largest grant-making agency in the Federal Government, this Department will also continue to play a lead role in the government-wide effort to streamline, simplify, and provide electronic options for the grants management processes. As part of the Federal Grant Streamlining Program, we will work with our colleagues across the government to identify unnecessary redundancies and duplication in the more than 600 Federal grant programs, and to implement electronic options for all grant recipients who would prefer to apply for, receive, monitor, and close out their Federal grant electronically.

Redirecting Resources

Being a wise steward of taxpayer resources means not only recognizing where you need to invest, but also where resources can be redeployed to more effective uses. In preparing our budget framework, we carefully reviewed each agency, identified areas where funding could be redirected, and made targeted reductions in selected programs. Funds for one-time projects and unrequested activities were also eliminated, and the monies redirected to higher priority programs. These decisions, which were made in accordance with the President's overall fiscal goals, will help to moderate the growth of the Department's budget and put it on a more sustainable path.

Last year, Congress took an important step to protect the integrity of the Medicaid program by passing legislation to address the "upper payment limit" loophole, which allowed states to draw down billions of dollars in federal matching payments for hospitals and nursing homes without any assurance that these payments were used for their intended purposes. But this legislation only partially addressed the problem, because it created a higher upper payment limit for non-State government operated hospitals. Our budget proposes to go even further in closing the loophole, by prohibiting new hospital loophole plans that were

deemed approved after December 31, 2000 from receiving the higher upper payment limit proposed in the Department's final rule implementing the upper payment limit legislation.

In addition to taking steps to further address the Medicaid "upper payment limit" loophole, the Administration plans to work with States to develop ideas that will improve States' ability to provide quality health care through their Medicaid and State Child Health Insurance Programs. Within this framework of increased State flexibility, the Administration also plans to work with States to stem the growth of Medicaid costs and ensure the fiscally prudent management of the Medicaid and SCHIP programs.

WORKING TOGETHER TO BUILD A BETTER NATION

Mr. Chairman, the budget I bring before you today contains a number of different proposals, but one common thread binds them all together – a desire to improve the lives of the American people. All of our proposals, from enhancing scientific research to modernizing Medicare, from expanding access to care to increasing support for the nation's families, are put forward with this one simple goal in mind, and I know this is a goal we all share.

As you begin to consider our proposals, let me leave you with one final thought. Senator Everett Dirksen said of the legislative process: "You start from the broad premise that all of us have a common duty to the country to perform. Legislation is always the art of the possible. You could, of course, follow a course of solid opposition, of stalemate, but that is not of the interest of the country." Starting from this premise, I am prepared to work with each of you to ensure that we develop a budget for this Department that effectively serves the national interest. I would be happy to address any questions you may have.